Protecting yourself from employee theft, fraud and embezzlement (part 1)

By Eugene W. Heller, DDS

As a practice owner, a dentist will face a multitude of business-related tasks, issues and challenges. The rewards far exceed the drawbacks, but there are challenges.

One of the challenges may be employee theft. Estimates of the number of dentists who will experience theft at least once during their dental career range from 35–50 percent.

Estimates in dollar loss range from $100 to $500,000 plus. Loss due to employee dishonesty may take the form of theft, fraud or embezzlement. With certain minimal protective measures, the majority of this theft is preventable. The key is to understand where the potential exists for theft to occur and to implement strategies to prevent the loss.

Meet the ‘thieves’

Jane the Eraser: Jane simply withheld any cash payments that were made for services and then erased the patient’s account information after posting the payment (and giving the patient a receipt), thereby removing any record of the payment from the system.

Estimated loss: $50,000 plus over a three-year period. The dentist recovered $25,000 from his office insurance plan. Jane was ordered to pay $10,000 in restitution.

Doris the Duplicator: When hired, Doris had successfully lobbied against computerization, convincing the dentist that it was not as efficient as the old manual pegboard system. In turn, Doris kept a duplicate set of patient ledgers.

Payments and receipts were recorded on the duplicate ledgers while charges were posted on the real ledgers. Over a period of 18 months, Doris stole an estimated $40,000.

Mary the Master: Mary was involved in skimming, taking cash and not posting it; layering, a technique involving the taking of checks and withholding them for posting later; and an excessive need for petty cash, going through about $100 per week.

Mary also set up a second business checking account in the dentist’s name (she was the only authorized signer) and subsequently diverted the office credit card deposits to that account.

Mary paid all office bills using a credit card, which allowed the checks to be made out to her personally, and then she changed them back to legitimate vendors after they cleared the bank. The deposit slips never matched the bank deposits actually made, and subsequently the checking account could never be balanced with the ledger.

The dentists noted that while each year their taxable income had increased over the previous year, according to the computer their accounts receivable had spiraled out of control and were showing a balance of $500,000 plus. During a five-year period, Mary had embezzled $400,000.

Definitions

Different terms can be used to describe loss by staff dishonesty. Theft is simply defined as “the taking of another’s property.” Embezzlement is the theft of an employer’s property while in the employer’s trust.

It is also defined as a misappropriation or conversion of entrusted money, property, etc., to the personal use of the employee. Fraud is the intentional deception that causes another to give up his/her money, property, etc.

Understanding the thief

There are different reasons for individual theft. It may be the need for money; for others, it is revenge or the feeling they are not compensated properly for their work; and for some, just like gamblers who keep playing but continue to bet, it is the excitement.

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The most common sign that theft by embezzlement may be occurring is patient complaints regarding their accounts. Also note that constant requests for petty cash reimbursements should be closely monitored. Outright theft of petty cash in a multiple-staff office is difficult to track.

Excess patient account write-offs or adjustments and inactivated accounts are also warning signs, as are increases in accounts receivables with no offsetting increase in overall office production.

Missing documents/invoices, insurance claim forms, explanation-of-benefits (EOB) forms, patient checks, practice checks, checking account records, patient clinical records, patient account records, etc., are definite signs of a problem as are sloppy filing and record keeping.

The practice checking account also holds potential signs of a problem. Unusual deposit patterns and deposits; inability to balance the checking account; and missing sequential checks are all red flags that should be investigated.

Preventing theft

Whether theft takes the form of fraud or embezzlement, theft by an employee shares three steps. For theft to occur, all three components of the theft triangle must be intact.

The first component is motive. The employee needs a reason to steal.

The next component is opportunity. In a dental office, unimpeached access to the funds with minimal or no restraints, checks or accountability provides an easy route to employee theft.

And, finally, the third component is the need to rationalize the justification that what they are doing is acceptable.

The key to preventing theft is to remove opportunities.

Controlling access to opportunity must be done to avoid theft with these five steps:

1) Control how money is handled.
2) Split money-handling duties; discrepancies can be more easily noticed in this way.
3) The dentist or his/her accountant must open and balance the bank statement. This means bank statements should be mailed to the dentist’s residence or directly to the accountant.
4) The dentist or his/her accountant must approve account statements and checking the adjustment report daily; authorizing check refund requests; signing and mailing all checks if a staff person makes out the checks for vendors. The signed check should not be put back into the control of a staff person.
5) Either the accountant or a payroll service should prepare payroll. If a payroll service is used, it is the dentist’s or accountant’s responsibility to call the information into the payroll service.

(*All names are fictitious.)

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About the author

Dr. Eugene W. Heller is a 1976 graduate of the Marquette University School of Dentistry. He has been involved in transition consulting since 1985 and left private practice in 1996 to pursue practice management and practice transition consulting on a full-time basis. He has lectured extensively to both state dental associations and numerous dental schools. Heller is presently the national director of Transition Services for Henry Schein Professional Practice Transitions. For further information, please call (800) 750-8895 or send an e-mail to hsf@henryschein.com.